

## Message Text

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SUBJECT: PORTUGUESE LIQUIDITY CRISIS AND THE EC

REFS: A) LISBON 8486

B) STATE 297463

C) PARIS 33086

D) EC BRUSSELS 11179

1. SUMMARY: EC COMMISSION OFFICIALS RECOGNIZE PORTUGAL FACES A SERIOUS LIQUIDITY CRISIS BUT BELIEVE ITS SOLUTION WILL HAVE TO BE FOUND IN BILATERAL ACTION AND VIA INTERNATIONAL LENDING ORGANIZATIONS. THE COMMUNITY'S DEVELOPMENT PROGRAM IS MOVING ALONG MORE OR LESS ON SCHEDULE BUT IS NOT APT TO BE VERY HELPFUL TO PORTUGAL IN BALANCE OF PAYMENTS TERMS. END SUMMARY.

2. FOLLOWING RECEIPT OF REFTEL A, WE ASKED MISS NIELSEN, THE EC COMMISSION OFFICER IN CHARGE OF IBERIAN PENINSULA AFFAIRS, FOR THE COMMISSION'S VIEWS ON PORTUGAL'S LIQUIDITY CRISIS.

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SHE AGREED ON THE SERIOUS NATURE OF PORTUGAL'S BALANCE OF PAYMENTS PROBLEMS. WITH REGARD TO THE COMMUNITY'S EMERGENCY ASSISTANCE

PACKAGE, SHE INDICATED THAT THE STATUS OF THE PROGRAM REMAINS ESSENTIALLY AS REPORTED IN REFTEL D. DISCUSSION WITH THE PORTUGUESE ON THE COMMUNITY'S 150 MILLION UNIT OF ACCOUNT (MUA) AMERGENCY PROGRAM ARE STILL SCHEDULED TO BEGIN JANUARY 7 IN BRUSSELS. THESE WILL BE FOLLOWED BY MORE INTENSIVE DISCUSSIONS BETWEEN THE PORTUGUESE TEAM AND THE EUROPEAN INVESTMENT BANK JANUARY 12 IN LUXEMBOURG. SO FAR THEY ARE STILL IN THE PROJECT IDENTIFICATION STAGE BUT SHE IS HOPEFUL THAT SUFFICIENT PROGRESS WILL BE MADE IN LUXEMBOURG SO THAT IT WILL BE POSSIBLE FOR SOME FUNDS TO BEGIN MOVING AS EARLY AS MARCH. SHE RECOGNIZES, HOWEVER, THAT FROM A BALANCE OF PAYMENTS POINT OF VIEW, THIS WOULD NOT BE VERY HELPFUL BECAUSE OF THE SMALL QUANTITIES INITIALLY INVOLVED.

3. WITH RESPECT TO THE FINANCIAL PROTOCOL, MISS NIEDSEN WAS SOMEWHAT PESSIMISTIC ON TIMING. SHE SAID THE FINANCE MINISTERS WERE IN NO HURRY, TAKING THE ATTITUDE THAT THEY HAD ALREADY APPROVED 150 MUA IN EMERGENCY AID AND THAT THIS SHOULD HOLD THE PORTUGUESE FOR A WHILE. SHE NOTED THAT THE PROCESS OF MEMBER STATE RATIFICATION OF THE PROTOCOL WOULD INEVITABLY TAKE AT LEAST 12 MONTHS; THEREFORE SHE HAS BEEN PUSHING THE LINE THAT UNLESS THE FINANCIAL PROTOCOL IS APPROVED BY OCTOBER 1976, FUNDS DERIVING FROM IT WILL NOT MOVE TO PORTUGAL IN TIME TO FOLLOW DIRECTLY ON THE HEELS OF THE TWO YEAR EMERGENCY PROGRAM AS ORIGINALLY ENVISAGED.

4. MISS NIEDSEN SAID SHE WAS DISAPPOINTED BY THE COUNCIL'S FAILURE TO APPROVE A NEGOTIATING MANDATE FOR THE TRADE AGREEMENT ON DECEMBER 9 BUT SHE WAS QUITE CONFIDENT THEY WOULD DO SO ON JANUARY 17. COMMUNITY PREPARATIONS ON THE TRADE ASPECTS ARE QUITE WELL ADVANCED. SOME CONCESSIONS WILL BE HELPFUL TO THE PORTUGUESE BUT IN SOME AREAS OF INTEREST TO THEM THE COMMUNITY WILL ONLY BE ABLE TO MAKE SYMBOLIC GESTURES.

5. ONE SIGNIFICANT CONCESSION IS BEING CONSIDERED ON KRAFT LINER PAPER. THE PORTUGUESE HAVE A NEW INDUSTRY WHICH IS EXPECTED TO COME ON STREAM DURING THE COURSE OF 1976. THE COMMISSION BELIEVES THE COMMUNITY WILL APPROVE SIGNIFICANT TARIFF REDUCTIONS FOR THE FIRST 42,000 TONS IMPORTED. THIS IS APPROXIMATELY HALF OF THE ANTICIPATED PORTUGUESE PRODUCTION.  
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6. THE COMMISSION PROPOSALS ALSO INCLUDE FREE ENTRY FOR CAVIAR, HERRING FILETS AND CERTAIN PRESERVED CRUSTACEANS AND A 50 PER-CENT REDUCTION ON CERTAIN TUNA AND MACKEREL. THE CURRENT TRADE IN THESE ITEMS IS QUITE LIMITED BUT MISS NIELSEN BELIEVES PORTUGAL WILL BE IN A POSITION TO INCREASE IT SIGNIFICANTLY.

7. AT PORTUGUESE REQUEST THE COMMISSION IS ALSO PROPOSING 50 PERCENT REDUCTION ON AGRICULTURAL ITEMS SUCH AS CUCUMBERS, PIMENTOES AND CAULIFLOWER WHERE THERE IS ALSO A FAIRLY SIGNIFICANT POTENTIAL

MARKET.

8. ON TWO ITEMS OF PARTICULAR SIGNIFICANCE IN PORTUGAL, HOWEVER, TEXTILES AND WINE, THE COMMUNITY WILL ONLY BE ABLE TO MAKE SYMBOLIC GESTURES. THE CEILING FOR TEXTILES WILL BE RAISED SLIGHTLY EXCEPT IN THE UK AND THE CEILING FOR BOTTLED PORT, MUSCATEL AND MADEIRA WILL BE SLIGHTLY INCREASED. BECAUSE OF STRONG OPPOSITION FROM FRANCE AND ITALY, SHE DOES NOT BELIEVE IT WILL BE POSSIBLE TO MAKE ANY CONCESSIONS ON "QUALITY WINES."

9. MISS NIELSEN ALSO BELIEVES THE COUNCIL WILL APPROVE CERTAIN MEASURES TO PROTECT INDUSTRIES IN PORTUGAL SPECIFICALLY THE TRANSFER OF SOME ITEMS ON A LIST OF PRODUCTS FOR WHICH TARIFFS ARE SCHEDULED TO BE DISMANTLED BY 1980 TO A LIST FOR WHICH DISMANTLING WILL NOT TAKE PLACE UNTIL 1985. SHE ALSO EXPECTS THE COMMUNITY WILL BE ABLE TO OFFER PORTUGAL MORE FLEXIBLE RULES UNDER WHICH IT CAN PROTECT ITS INFANT INDUSTRIES.

10. MISS NIELSEN RECOGNIZED THAT NONE OF THE ABOVE MEASURES WERE APT SUBSTANTIALLY TO AFFECT PORTUGAL'S SHORT TERM BALANCE OF PAYMENTS PROBLEMS. SHE NOTED THAT THE COMMUNITY WAS ALREADY COMMITTED TO SUPPORTING PORTUGAL'S EFFORTS TO BORROW FROM INTERNATIONAL INSTITUTIONS INCLUDING THE IMF. THIS SHE THOUGHT, PLUS BILATERAL ASSISTANCE, PROVIDED PORTUGAL'S BEST BET IN THE NEAR TERM.

11. WE AGREED WITH MISS NIELSEN THAT THE COMMISSION'S PROPOSALS AS SHE OUTLINED THEM WOULD NOT MAKE A SIGNIFICANT CONTRIBUTION TO PORTUGAL'S IMMEDIATE CRITICAL SITUATION. WE URGED THAT THE COMMISSION MAKE RENEWED EFFORTS TO STIMULATE THE COMMUNITY AND THE MEMBER STATES TO INCREASE THEIR HELP TO PORTUGAL ON BOTH LIMITED OFFICIAL USE  
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THE FINANCIAL AND TRADE FRONTS.

12. COMMISSION OFFICIALS ON THE FINANCE SIDE HAVE TOLD US THEY ARE NOT SERIOUSLY CONCERNED OVER THE LIQUIDITY OF PORTUGAL'S FOREIGN EXCHANGE RESERVES. ON THE BASIS OF OCTOBER DATA, THEY NOTE THE GOP'S YEARLY DEBT PAYMENTS AMOUNTED TO ABOUT \$1.4 BILLION WHICH IS NOT LARGE COMPARED TO THE GOP'S \$4 BILLION IN GOLD. ALTHOUGH THEY WERE NOT INFORMED OF GOP EFFORTS TO ARRANGE GOLD COLLATERAL LOANS WITH COMMERCIAL BANKS, THEY HAD HEARD REPORTS THAT THE FRG WAS CONSIDERING A POSSIBLE GOLD COLLATERAL LOAN TO PORTUGAL. THIS LOAN WOULD BE SIMILAR TO THE FRG'S LOAN TO ITALY LAST YEAR. GREENWALD

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